



May 27, 2014

Mr. Gerald Poliquin, Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

Re: Comments on Proposed Rule: PCA – Risk-Based Capital

Dear Mr. Poliquin:

Thank you for the opportunity to comment on the proposed Risk-Based Capital Rule.

More than eighty years ago, a small group of teachers pooled their savings to lend to others in need of credit. From these humble beginnings, Teachers Credit Union has grown to become Indiana's largest Credit Union with more than \$2.4 billion in assets with branches throughout the State of Indiana and Southwest Michigan. Teachers Credit Union not only offers traditional financial services to its members, but non-traditional services such as Travel and Insurance.

This response focuses on the areas that we have classified as the most significant to Teachers Credit Union.

Risk-Weights for On-Balance Sheet Assets (702.104.c.2)

This section defines the risk categories and risk weightings. The theme throughout this section is one that the regulator wants Credit Unions to do short term consumer loans. The proposed rule increases the capital needed to support long term mortgages above 25% of assets, average life of investments above one year start to require higher levels of capital, and an artificial weighting of 250% for CUSO's. Credit Unions are here to serve our memberships. This rule puts in jeopardy the fundamental reason we exist.

The larger and more concerning aspect of the risk weightings is that the regulation will cause the Credit Union industry to have very similar balance sheets. Credit Unions over time will be forcing their asset structure toward an allocation that is favored by the calculation. This may be easier for the NCUA to regulate, but it is not good for our industry and our membership.

First Lien Real Estate Loans – We understand the potential need to have higher risk weights on larger asset classes. However, any one asset class should not be viewed independently from the remainder of the balance sheet. A Credit Union with 40% assets in first lien real estate loans may in fact have less risk than one with 20%, given the strength of underwriting and structure of the other assets and liabilities. Strong underwriting and Asset Liability Management mitigates risk.



Teachers Credit Union has low delinquency and charge offs demonstrating our strong credit culture. We also utilize match funding to offset the interest rate risk inherent in longer term assets. The proposed rule does not take either of these into consideration. The proposed rule assumes that lower amounts of longer term assets create less risk to the insurance fund.

Member Business Lending - The proposed weighting on member business loans will have a negative effect on our ability to lend to businesses in the future. Currently, there is a 12.25% of assets cap in place for us. We plan for member business lending to add diversification to our balance sheet. Putting any further restrictions on member business lending will create a higher concentration of personal loans. Providing more member business loans helps to keep our balance sheet well diversified.

Credit Unions, at their core, are designed to benefit the communities in which we serve. During the financial crisis, as banks stopped lending Credit Unions were lending to the businesses in our markets. We provided a needed source of liquidity for those businesses. Despite the recession, Teachers Credit Union's member business loans have performed very well. We have proven ourselves over the last 13 years with strong credit, collateral and guarantees on these loans. Any further restriction in this asset class impedes our ability to meet this very fundamental purpose of who we are and the purpose of our mission.

Other Real Estate Loans – A second mortgage functions more as a consumer loan than a real estate loan. The capital requirement weighting should reflect those characteristics. Second mortgages in the worst case scenario will be unsecured yet require more capital than an unsecured credit card. An unsecured credit card has the highest amount of credit risk yet requires only a 75% weighting. The credit card is usually the first loan someone in trouble decides not to pay.

Investments – The proposed rule encourages shorter average life investments. Inherently, a portfolio forced into the shorter term will have less diversification than a portfolio that is structured across all terms. Long term investments provide a level of protection in certain rate environments that should not be discounted. Additionally, by forcing a shorter average life, the Credit Union is sacrificing the ability to add to capital, countering the effect the proposal is striving to achieve.

Risk-Based Capital Measures (702.104.b.1)

Allowance for Loan and Lease Losses – Limiting the amount of ALLL the Credit Union receives credit for creates an environment of disincentive to fund this account past 1.25% of risk based assets. This is the largest estimate management makes on a monthly basis. Creating any negative consequences for funding above 1.25% of risk-based assets can cause good people to make bad decisions. ALLL should be included at 100% and not capped.



Individual Minimum Capital Requirements (702.105.a)

It is dangerous to grant the ability for an examiner to arbitrarily raise the level of capital required based on their judgment that the Credit Union has a high degree of risk. This overrides any risk weighting within the proposed rules.

Interest Rate Risk

Incorporating interest rate risk into the proposed rule without any provisions for how the assets are funded is flawed. The structure of member deposits and wholesale borrowings is needed for proper interest rate risk analysis.

Effective Date (Section III)

An 18 month implementation timeframe does not provide an adequate amount of time for a Credit Union to change its capital structure under the proposed regulation. Credit Unions can only grow capital through retained earnings. There are no alternative ways to generate additional capital. By implementing this short time frame, Credit Unions will be forced to make draconian changes, which will not be in their best interest for the long term.

Under the proposed rule, our Credit Union is well capitalized. The cushion we have today of 1.40% would be lowered to .50%. To get our risk based net worth back to a 1.40% cushion; our ability to grow will be impacted. Without making significant changes to our current operations, this could take up to seven years. Since our only way to grow capital is through earnings, the proposed plan will cause us to do more short term consumer loans and less long term mortgages. The effect will be lower margins in the future. Therefore, we will need to explore all aspects of our operations. This will likely mean additional burdens on our membership.

We appreciate the opportunity to submit our comments and thank you for your time and consideration.

Sincerely,

TEACHERS CREDIT UNION

Todd C. Brown
Senior Vice President and
Chief Financial Officer